FOR IMMEDIATE RELEASE:
October 25, 2004

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WHOLESALE COLLAPSE OF INSURANCE RATES IS NOW UNDERWAY; EVEN MEDICAL MALPRACTICE RATE HIKES CLOSE TO MEDICAL INFLATION

NEW YORK — Americans for Insurance Reform (AIR) and consumer rights organizations have long maintained that the "crisis" of skyrocketing insurance rates for doctors and other policyholders would end when the insurance investment cycle stabilized, and that this would occur whether or not "tort reform" laws were enacted. Insurance industry data now unmistakably confirms this prediction.

According to the third-quarter Council of Insurance Agents and Brokers survey of market conditions, commercial insurance rates are now dropping significantly. Even medical malpractice insurance, which has been skyrocketing for some doctors over the last two years, has now slowed to the point that med mal rates hikes (6 percent) are nearly as low as medical inflation (currently 4.4 percent).

"We are now witnessing the wholesale collapse of insurance rates," said J. Robert Hunter, AIR spokesperson, Director of Insurance for the Consumer Federation of America, former Federal Insurance Administrator and Texas Insurance Commissioner. "Rate increases in commercial property insurance are dropping across the board. The end of the 'hard market' of sharp rate increases, less competition and cutbacks in coverage has occurred and a 'soft market' is now fully in place."

A "hard" insurance market is characterized by higher rates, less competition and limited coverage. This is the result of the cyclical nature of the insurance business. Prior to the "hard market" of the last two years, the last such "hard market" occurred in the mid-1980s. But like today, the insurance cycle turned after two to three years and prices began to fall. This had nothing to do with tort law restrictions enacted in particular states, but rather to modulations in the insurance cycle everywhere. In 1991, for example, Washington State's insurance commissioner Dick Marquardt concluded that it was "impossible to attribute stable insurance rates to tort-law changes or the damages cap," since rates also improved in states that did not pass "tort reform," and that "requiring frequent rate review and reporting of investment income probably was more likely than tort reform to stabilize the insurance market." "Health Care Reform – [George H.W.] Bush's insurance cap plan a proven failure." *The Seattle Times,* May 16, 1991.

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From the late 1980s until late 2000, the nation had enjoyed a "soft" insurance market for over a decade – with rates of liability insurance not only stable but down, at least in real, inflation-adjusted terms. But the cycle turned from a "soft" to a "hard" market in late 2000. The September 11th terrorist attacks accelerated the rate increases that were already underway.

"The hard phase of the insurance cycle clobbers American businesses and professions every ten to fifteen years," said Hunter. "Although these hard markets last only about two to three years, they can no longer be tolerated. State regulators must enforce the rating laws in order to end the boom and bust swing from illegal overpricing, such as the rates some policyholders have been asked to pay today, to illegal and inadequate underpricing, which will be seen when the market softens too much later in the cycle. Fortunately, the hard market price jump is behind us and we are now entering the softer market so legislators have a decade or so to grapple with how best to do this before the next hard market hits the nation. And there is now clearly no need to rush into quick legislative fixes, such as legal limits on patients' rights."

A copy of the AIR analysis follows:

	2001	2Q-02	3Q-02	4Q-02	1Q-03	2Q-03	3Q-03	4Q-03	1Q-04	**3Q-04**
OVERALL RESULTS										
Small Comm. Accounts	+21%	+20%	+15%	+08%	+11%	+07%	+04%	+04%	+03%	**-03%**
Mid-size Comm. Account	+32%	+27%	+22%	+19%	+14%	+08%	+05%	+05%	+01%	**-06%**
Large Comm. Accounts	+36%	+34%	+25%	+21%	+15%	+08%	+04%	+04%	-03%	**-09%**
SPECIFIC LINES										
Business Interruption	+30%	+21%	+16%	+13%	+09%	+05%	+03%	+02%	-01%	**-05%**
Construction	+46%	+44%	+30%	+34%	+22%	+17%	+13%	+13%	+08%	**+02%**
Commercial Cars	+28%	+27%	+18%	+18%	+15%	+11%	+06%	+07%	+03%	**-05%**
Property	+47%	+42%	+24%	+21%	+12%	+06%	+01%	+05%	-05%	**-10%**
General Liability	+27%	+24%	+18%	+19%	+14%	+11%	+07%	+06%	+03%	**-04%**
Umbrella Liability	+56%	+52%	+36%	+34%	+26%	+18%	+11%	+11%	+04%	**-02%**
Workers' Compensation	+24%	+26%	+19%	+21%	+17%	+15%	+10%	+09%	+04%	**-05%**
D&O			+35%	+32%	+29%	+21%	+16%	+13%	+07%	**-05%**
Employment Practices			+19%	+32%	+19%	+17%	+12%	+10%	+05%	**-02%**
Medical Malpractice			**+61%**	**+63%**	**+54%**	**+48%**	**+28%**	**+34%**	**+19%**	**+06%**
Surety Bonds			+14%	+18%	+18%	+13%	+06%	+07%	+06%	**+01%**
Terrorism				+63%	+13%	+06%	+02%	+02%	00%	**-02%**

Source: Analysis of Council of Insurance Agents and Brokers quarterly survey of market conditions.

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